

## **B20 task force on Financing Growth and Development: Concrete Actions for Los Cabos**

*The B20 task force on 'Financing Growth and Development' has proposed five 'Priority Actions for Los Cabos' to G20 stakeholders. The shared agenda for the business community and governments is to foster growth that promotes jobs and development. Finance is the oxygen of economic growth, and the core focus of the Financing for Growth and Development task force was to make concrete recommendations on how the financial sector can support growth, job creation and economic opportunity. With a particular focus on emerging markets, this task force has taken a broad view of financial inclusion looking at widespread access to formal financial services by promoting existing access points, including public networks and government offices, as well as innovative distribution channels, including third party correspondent and mobile service providers, as well as access to credit and banking services for individuals, MSMEs. The task force also developed specific recommendations on how to promote financial education in order to develop financial capabilities and a savings culture among un-under-banked groups.*

*The recommendations call for the regulatory treatment of certain activities to be more reflective of their risk, for actions to reduce risk and lastly for a degree of risk sharing between governments and the private sector where this is necessary for growth or development. The financial services sector will be able to meet the needs of the financially excluded and help foster economic growth and development if the recommendations are implemented.*

*Two of the ideas which provide a significant opportunity for G20 stakeholders to make real progress in financing growth and development are outlined below, along with the priority actions.*

### **1. Trade Finance: The G20 should recognise the low risk nature of trade finance activity and value this provides for emerging economies and take action to reverse the unintended consequences of the capital and liquidity treatment of trade finance.**

**Rationale:** Trade finance has an important role to play in helping to facilitate global trade, economic growth and job creation. Trade finance is a low risk activity – using a dataset of 60-65% of traditional global trade finance activity (worth about US\$2-2.5trn), the International Chamber of Commerce (ICC) found fewer than 3,000 defaults in the full dataset of 11.4m transactions. In light of the global economic slowdown and the low risk nature of trade finance, the G20 should reverse the unintended consequences of the capital and liquidity treatment of trade finance. Action to overcome these unforeseen regulatory and real-economy impacts in emerging markets should be taken.

#### **Actions to be taken:**

- Identify actions that lead to more appropriate regulatory regime for trade finance activity.
- Address restrictions to trade finance activity in revised regulatory rules, in particular Basel III and Basel II. More specifically:
  - *Capital* - A waiver of the one year maturity floor for Trade Loans and Receivables and agreement that there should be a harmonised approach to implementation. Creation of a Trade specific Asset Value Correlation (AVC) or risk curve and a harmonised approach to implementation.
  - *Liquidity* - A defined liquidity requirement for Trade Contingents (LCs and Trade Guarantees) based on data from the International Chamber of Commerce. Recognition of Trade Finance inflows from corporate counterparties at 100%.
  - *Leverage* - A consistent Credit Conversion Factor of 20% for medium/low risk off-balance sheet trade finance exposures and 50% for medium risk off-balance sheet exposures for purpose of the Leverage Ratio as Basel has been applying since 1998 (Basel I) as well as under Basel II for certain trade contingents.

**Immediate action to start process:** Consult on specific changes to capital, liquidity and leverage requirements for trade finance.

**Timeline:** Launch consultation before the end of 2012 to align any changes with Basel III implementation.

#### **Commitment needed:**

- ***The ICC to help coordinate industry-wide data***
- Individual companies to provide data and input where required.  
***This task force commits to support this process and engage with the FSB and governments as they take forward the study.***

- Government support to commission study. *G20 countries to take the lead in identifying the restrictions and taking action to reduce impediments to global trade.*
- Basel Committee on Banking Supervision consultation and engagement.

**2. Financial Inclusion (SME): The G20 should support efforts by all countries to increase SME finance through better provision of data on SME credit risk guarantee programs and a unified national agency that promotes this segment.**

**Rationale:** SMEs are the lifeblood of the economy and it is essential they are able to secure the credit they need. G20 leaders should support efforts by all countries to improve data on SME finance, in particular bank access to credit data will help banks reduce the costs, and increase the availability, of credit. The creation of credit bureaus and the expansion of their data is an essential step in the development of effective credit markets and will help to reduce risks to the financial system. Insufficient data is available to access SME credit risk despite the fact that SMEs employ around 75% of employees and contribute between 30-60% of GDP and 45% of net new wealth. According to McKinsey, the presence of a credit bureau decreases the percentage of micro-, small, and medium sized enterprises (MSMEs) reporting financing constraints from 49% to 27%, increases the chance of loans being granted from 28% to 40%, and cuts default rates from 2.2% to 1.3% for large banks and from 2.4% to 0.5% for small banks. There is significant room for improvement – currently, only 5-30% of MSME borrowers are covered by credit bureaus.

**Criteria for success / Actions to be taken:**

- Accelerate development of credit bureaus, through traditional and new providers such as telcos, with a particular focus on SME data.
- Develop partial guarantee schemes for SME finance and microfinance institutions including support for rural supply chains.
- Identify single national public entities to coordinate all SME support in a country, including government support programmes, funding and guarantees for SMEs. Information from this entity will support data creation for credit bureaus.
- Create a requirement for all credit providers to submit data to credit bureaus.

**Immediate action to start process:** Targets to be established and an implementation timetable agreed.

**Timeline:**

- Set ambitious targets under the Mexican presidency and agree an implementation timetable.
- Develop framework by end 2012.
- Identify options over 2013.

**Barriers to implementation:**

- Difficulties in gathering data and the need for passage of national legislation.
- Upfront cost implication and need for new oversight body.
- Many organisations are involved with SMEs who will still need to be engaged.
- Capturing currently non-regulated financial entities in the reporting process so that data provision is complete.
- The process of supervision to guarantee the quality of the information reported to credit bureaus.

**Commitment needed:**

- Support of governments to develop credit bureaus, and of financial institutions and financial literacy providers (ie academic and private institutions) to promote their importance. *This task force calls on the G20 countries to take the lead in establishing or strengthening credit bureaus, ensure that all financial institutions are reporting client data to the credit bureaus and take concrete steps to develop partial guarantee schemes for SME finance and the champion and establish this work.*
- Federal and regional government, SMEs and export finance input will be needed to build the systems. *G20 countries can take the lead and look to business for support. This Task Force commits to support the actions outlined above, and to promote credit bureaus across all the markets in which we are based. Where there is expertise to help build the systems, this group will engage in consultation and input to the development process to ensure that the most effective system is implemented to increase access to funding to SMEs and microenterprises to help establish credit histories for an un-/under-banked sector.*